



Institute
and Faculty
of Actuaries

Presentation for



Topical Professional Issues for Actuaries

IAA Fund Seminar

Singapore. 14 October 2013

Aims of talk

- Highlight topical professionalism issues
- Importance of code of conduct
- Development of professional standards
- Principles of professionalism
- Implications for associations



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Issues of professionalism

Highlights of The Actuaries' Code

- Integrity
 - relationship with other actuaries
 - respect, courtesy, confidentiality
- Competence and Care
- Impartiality
 - avoiding conflicts of interest
- Compliance
 - willingness to challenge non-compliance
- Open communication



Groupe Consultatif Code of Conduct

- Basis for IAA Code of Conduct requirement
- New version (from Jan 2014) groups paragraphs under headings
 - Integrity
 - Competence and Care
 - Compliance
 - Impartiality
 - Effective communication



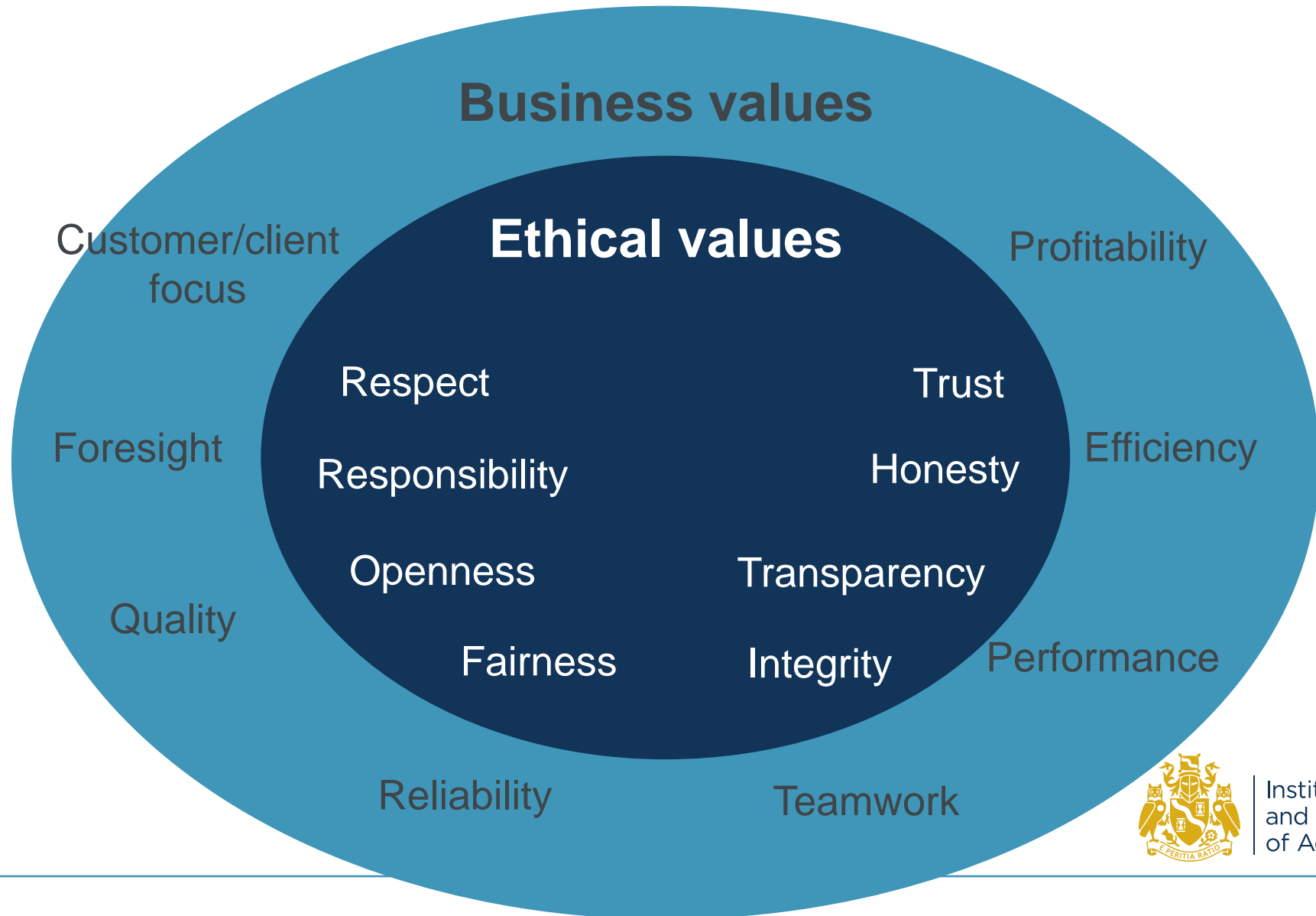
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Issues of professionalism for actuaries

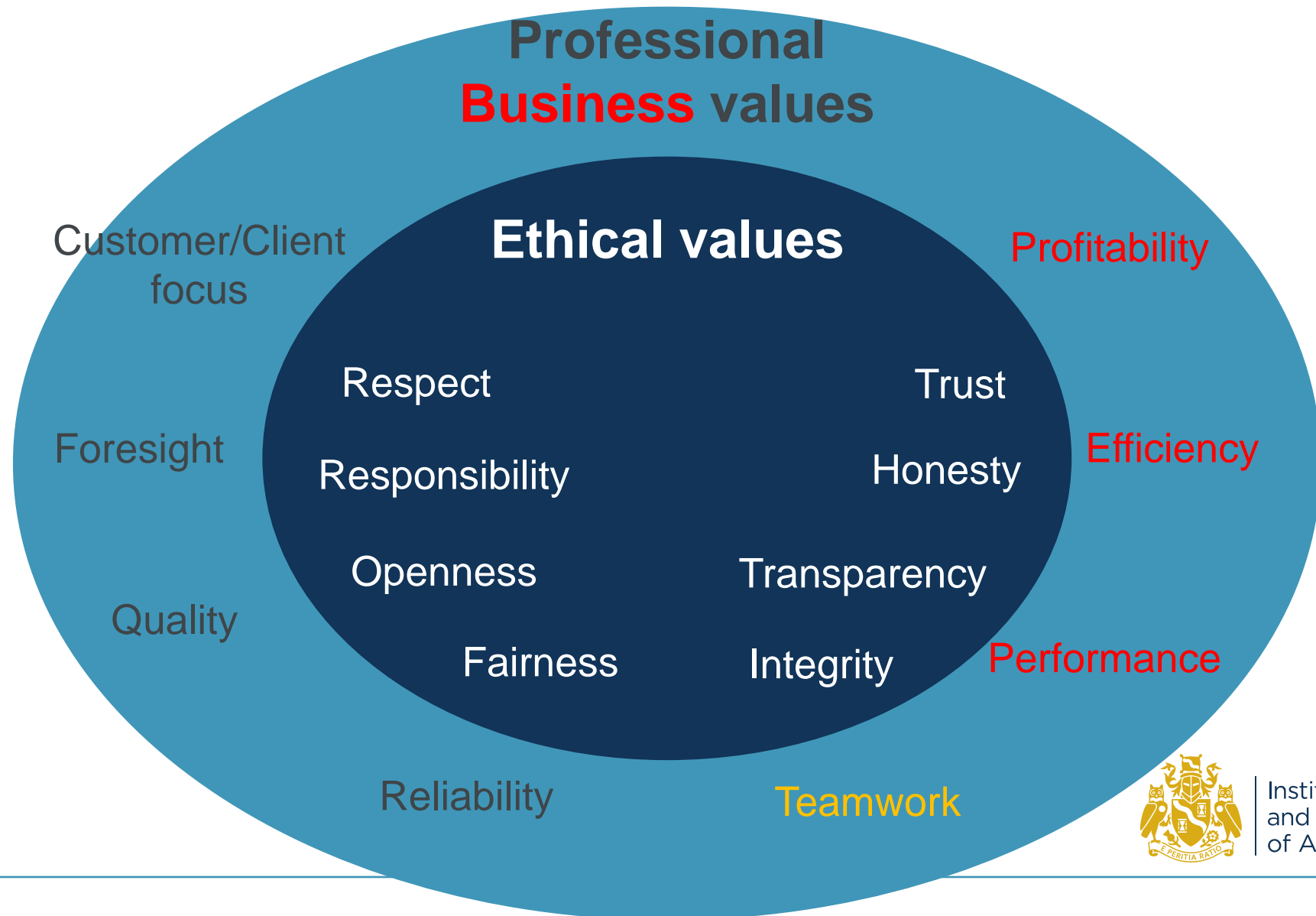
- Code of Conduct does not cover everything
 - actuaries should observe the spirit and not just the letter of the code
 - actuaries should act with proper regard for the public interest
 - actuaries should not bring the profession into disrepute
 - actuaries should be willing to challenge non-compliance
- an actuary shall not allow bias, conflict of interest or the undue influence of others to override professional judgement



Business and ethics



Professionalism and ethics



Ethical values which are also professionalism issues

- trust, honesty, integrity
- openness, transparency, accountability
- avoiding misleading communication
- respect and support for others
- confidentiality
- avoidance of conflicts of interest
- speaking up



Other ethical issues (beyond professionalism?)

- bribery and corruption
- fraud
- gender (and other forms of) discrimination
- unethical marketing
- excessive executive remuneration
- environmental concerns
- work/home balance



Beyond ethics - other professionalism issues

- fiduciary relationship
- objectivity/impartiality
- quality of professional services/doing a good job
- taking into account the interests of those affected
- quality of documentation and 'audit trail'
- checking and review of work and calculations
- life-long learning – developing our knowledge and skills
- appearance and demeanour
- assisting the profession to serve the public interest



Some problems of the past Life Insurance

- products designed to disguise charges
- products exposing customer to high risk
- instances of mis-selling of life products
- commission to intermediaries distorting incentives
- inadequate reserving for financial guarantees
- giving more attention to the shareholder than the policyholder
- even if not 'actuarial' the profession may be blamed



Some problems of the past

General Insurance

- poor risk identification and classification
- weak 'best estimate' reserving
- failure to clamp down on fraudulent claim activity
- inadequate recognition of latent claims
- failure of reinsurance
- some insolvencies



Where might actuaries now be at risk?

- over-reliance on complex models
- underestimating the fatness of the tail of distributions
- market consistent valuation (and cost of long-term guarantees)
- low interest rate environment
- readiness to design products which are bad for the customer
- not treating the customer fairly
- poor communication of risk to customers



Public Responsibilities of Life Actuary

- valuation of liabilities
- opinion on financial condition
- certification of adequacy of assets to meet liabilities
- actuarial reports – internal and external
- marketing disclosures
- new products and pricing
- certification of fairness or equity
- transfers of business
- surrender values/paid up values



Public Responsibilities of Non-life Actuary

- opinion on financial condition
- valuation of technical provisions
- certification of adequacy of assets to meet liabilities
- actuarial reports – internal and external
- risk analysis and management
- design of reinsurance programme and risk transfer mechanisms
- new products and pricing
- capital requirements
- transfers of business



Responsibilities of appointed actuary

- continuous monitoring of financial soundness
- adequacy of premium rates
- soundness of product design
- access to management and to Board
- relationship with regulator
- suitability of investment policy
- dynamic financial condition analysis and reporting



A professional is more than a technician

- reliance on judgement, not just mathematics
- having regard to wider factors
 - such as impact of advice on all stakeholders
 - concern for reputation of profession
- doing a good professional job
 - quality
 - integrity
 - impartiality/objectivity
 - avoiding (or managing) conflicts of interest



Possible roles of insurance actuary

- employee
- director
- policyholder
- shareholder
- holder of share options
- performance-related remuneration scheme



Possible conflicts of interest

- shareholder v policyholder
- management v shareholder
- marketing attractiveness v risk management
- pricing v reserving
- participating v non-participating
- transparency v opacity



Handling uncertainty

- reserving ranges
- understanding uncertainty
- communicating uncertainty
- risk management
- role of reinsurance and risk transfer



Actuarial risk management

- risk analysis
- enterprise risk management
- development of risk control strategies
- Own Risk Solvency Assessment (ORSA)
- resilience of company to adverse scenarios
- use of internal model
- communication of risk
- need for standards of practice?



Actuarial Governance

- how can the actuary contribute to good corporate governance?
- professionalism offers a firm basis for trust
- openness, transparency and accountability
- objectivity and ‘independence’
- evaluation of impact on all stakeholders
- taking into account the interests of policyholders
 - “Treating the customer fairly”



Standards of Practice

- the Code of Conduct deals with broad ethical and behavioural issues...
- ...Standards of Practice are concerned with specific behaviours required of the actuary in relation to particular practice area applications, often in connection with statutory duties imposed on the actuary.



Standards of Practice

- the Associations in North America have issued many Standards of Practice (Actuarial Standards Board and CIA)
- in the UK the Financial Reporting Council is responsible
- a number of other associations have issued some standards
- in some countries actuarial standards of practice are laid down by the regulator
- actuaries should understand which Standards of Practice (if any) apply to actuarial work they are doing in any jurisdiction where they are working.



What is going on out there in the world?

- globalization of business and commerce, WTO and G20
 - demand for level playing field and transparency, including in the financial sector
 - Regulated Professions Task Force (reported to G20)
 - recommendation for global convergence of standards, including actuarial standards
- International Financial Reporting Standards (IFRS) being developed by the IASB (International Accounting Standards Board)
 - in September 2009, G20 called “... the accounting bodies to redouble their efforts ...”



What is happening now in the IAA?

1. Due Process Task Force (DPTF)
2. Actuarial Standards Committee (ASC)
3. Generic Standard on data, modelling, reporting (ISAP1)
4. Standard for social security actuarial reports (ISAP2)
5. Plans to develop the following standards
 - ❖ specific standard on actuarial work for IAS19 (ISAP3)
 - ❖ specific standard on actuarial work for IFRS4 (ISAP4)
6. Moving towards permanent structure for standard-setting



Principles of Professionalism – 1

Paper prepared by Professionalism Committee (2011)

- Professionalism, for the actuarial profession, means
 - the application of specialist actuarial knowledge and expertise,
 - the demonstration of ethical behaviour, especially in doing actuarial work, and
 - the actuary's accountability to a professional actuarial association or similar professional oversight organisation.



Principles of Professionalism – 2

Principle A: Knowledge and Expertise

- ***An actuary shall perform professional services only if competent and appropriately experienced to do so.***
 - *This principle is supported by the following elements:*
 - a. Specialist knowledge
 - b. Professional communication
 - c. Required education
 - d. Continuing professional development



Principles of Professionalism – 3

Principle B: Values and Behaviour

- ***An actuary shall act honestly, with integrity and competence, and in a manner that fulfils the profession's responsibility to the public and upholds the reputation of the actuarial profession.***
 - *This principle is supported by the following elements:*
 - a. Ethical behaviour
 - b. Integrity
 - c. Independent advice
 - d. Trust and reputation
 - e. Public interest



Principles of Professionalism – 4

Principle C: Professional accountability

- ***An actuary shall be accountable to a professional actuarial association or similar professional oversight organisation.***
 - *This principle is supported by the following elements:*
 - a. Entry and qualification standards
 - b. Code of Conduct
 - c. Disciplinary process



Professionalism Education

- Subject 10 of IAA core syllabus – Professionalism
- should be part of qualification process to become an actuary
- also needs regular refreshing and updating
- should require professionalism component of CPD
- basic course of 1 to 2 days. Including case study work
- refresher might be half day or 2-3 hours
 - or on-line modules



Professionalism Education - Resources

- web materials
 - Conflicts of interest
 - Whistle-blowing
- model standards
- discipline advice
- case studies
- DVDs
- volunteers



Professionalism – Action points

- What are you doing in your association?
- Are you offering regular CPD on professionalism?
- What about new actuaries?
- What assistance do you require?





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